

ORIGINAL NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

G-01032A-01-0372

IN THE MATTER OF THE APPLICATION OF
THE NORTHERN ARIZONA GAS
DIVISION OF CITIZENS
COMMUNICATIONS COMPANY FOR
APPROVAL OF A GAS SUPPLY
AGREEMENT AND RELATED
MODIFICATION OF ITS NEGOTIATED
SALES PROGRAM TARIFF

DOCKET NO. G-01032A-01-

**APPLICATION FOR APPROVAL
OF GAS SUPPLY AGREEMENT
AND AMENDMENT OF THE
NEGOTIATED SALES PROGRAM
TARIFF**

The Northern Arizona Gas Division ("NAGD") of Citizens Communications Company ("Citizens" or "Company") hereby applies to the Arizona Corporation Commission ("Commission") for approval of a special *Gas Supply Agreement Between Citizens Communications Company and PP&L Energy Plus* and related amendments to its existing Negotiated Sales Program tariff. Citizens has discussed this procedure with Staff and it agrees the matter should be handled on this basis.

I. BACKGROUND

Description of the Parties

Through its Northern Arizona Gas Division, Citizens provides regulated gas distribution and transportation services to nearly 109,000 customers in its service territory certificated by the Commission. Duke Energy and Griffith Energy LLC, a subsidiary of PP&L Global, Inc., are the joint owners of the Griffith Energy generating facility located in Mohave County, Arizona, near the City of Kingman.

1 PP&L Global, Inc. is a wholly-owned subsidiary of PP&L Resources, a Fortune 500
2 company based in Allentown, Pennsylvania. PP&L Energy Plus, another wholly-
3 owned subsidiary of PP&L Resources is responsible for fuel procurement and
4 marketing activities associated with PP&L's ownership share of the Griffith
5 generating facility.

6 The Griffith plant is a 650 megawatt, natural gas fired electric power
7 generation facility that will produce and sell electricity in wholesale markets
8 throughout the Western United States through its interconnection with the
9 electric transmission system owned by the Western Area Power Administration.
10 Commercial operation of the Griffith plant is expected in June 2001.

11 **The Griffith Transportation Agreement**

12 On July 21, 1999 the Commission issued Decision No. 61835 approving a
13 special gas transportation agreement between Citizens and Griffith Energy LLC,
14 as well as the related special service rates. In connection therewith, Citizens is
15 obligated to construct, own and operate pipeline, metering, control and
16 interconnection facilities between the Griffith electric generating plant and the
17 interstate natural gas pipelines owned by El Paso Natural Gas Company and the
18 Transwestern Pipeline Company. Under the agreement, the pipeline is sized to
19 be able to deliver, from either El Paso or Transwestern, the Griffith plant's natural
20 gas fuel requirements of up to 121,000 Dekatherms per day, as needs dictate.
21 Griffith is required under the contract to bear full responsibility for procuring its
22 own gas supplies and having those supplies delivered to Citizens' interconnections
23 with the El Paso and Transwestern pipelines.
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25 The Agreement with Griffith has an initial twenty-year contract term, with
26 options for the plant owners to extend the agreement for periods up to another
27 twenty years. Citizens is compensated under the agreement by a levelized
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1 monthly payment based on a revenue requirement reflecting the capital
2 investment and projected annual operating expenses and taxes associated with
3 the new pipeline and related facilities, and the Company's current authorized rate
4 of return for its Northern Arizona Gas Division.

5 6 **Negotiated Sales Program**

7 In Decision No. 59399 issued on November 28, 1995 the Commission
8 approved a request by Citizens to introduce a new type of service, the Negotiated
9 Sales Program ("NSP") for its Northern Arizona Gas Division customers. The
10 primary objectives of the NSP program are: to provide a competitive alternative
11 to existing and future transportation customers in procuring gas supplies to meet
12 their needs, to provide for lowering of overall gas costs to firm service customers,
13 and to provide the Company an opportunity to improve earnings.

14
15 Through the NSP, Citizens offers to obtain the gas supply requirements for
16 its transportation customers. NSP Service is available only to customers that are
17 served under the Company's T-1 tariff, "Transportation of Customer-Secured
18 Natural Gas," at specially negotiated rates. The Company's upstream capacity is
19 used to transport all NSP volumes.

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21 Under the approved program, separate accounts are maintained for all NSP
22 revenues, gas costs and transportation expense. All variable costs billed by
23 upstream pipelines are charged directly to a special NSP Gas Account. Each
24 month, the PGA Bank Account is credited for one-half of the sales margins
25 associated with NSP service, thereby directly benefiting all sales customers.

26 27 **II. THE GAS SUPPLY AGREEMENT**

28 Citizens and representatives of PP&L Energy Plus have been meeting for a
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1 period of time to discuss the possibility of the Company's willingness to procure a
2 portion of the natural gas supply that will be used as the generating fuel for the
3 Griffith generating plant. As a result of such negotiations, a limited term gas
4 procurement agreement between the parties has been reached. Commission
5 approval of such agreement is being sought in this application on an expedited
6 basis.

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8 Due to the extreme commercial sensitivity of the contract, a confidentiality
9 agreement has been negotiated between the Company and Commission's Legal
10 Division. A copy of the executed contract and relevant financial information
11 supporting this application are being provided to the Commission Staff in
12 accordance with the terms of the confidentiality agreement.

13 14 **III. AMENDMENTS TO THE NSP TARIFF**

15 Citizens desires to provide limited gas supply procurement service to the
16 Griffith generating plant as an NSP customer. Service under the current NSP
17 tariff, however, is only available to customers being served under the Company's
18 T-1 transportation tariff. The requirements for service under the T-1 tariff,
19 combined with the fact that the Griffith gas transportation requirements are being
20 provided under a special Commission-approved contract, render attempting to
21 serve the plant as an NSP customer, without a tariff amendment, impossible.
22 Accordingly, Citizens respectfully requests Commission approval to modify its
23 existing NSP tariff to cover procurement service to be provided under the new
24 contract with PP&L Energy Plus.

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26 Specifically, Citizens is proposing to amend its current NSP tariff in two
27 ways. First, it proposes to expand the "Availability" of the tariff to include gas
28 procured for the Griffith plant under the new limited term agreement, and similar
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1 Commission-approved supply agreements. Second, an amendment is proposed to
2 the "Conditions" section of the tariff to incorporate the Terms of the new contract.
3 The proposed, revised NSP tariff is attached to this application as Exhibit A.
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5 **III. EXPEDITED APPROVAL**

6 The contract between Citizens and PP&L Energy Plus anticipates a prompt
7 Commission approval of the agreement and NSP tariff amendments, with the
8 commencement of procurement service in time for the commercial operation of
9 the Griffith plant and the summer cooling season beginning in June. This
10 application presents no new issues that the Commission has not already
11 addressed in previous Citizens Gas rate cases, in its decision approving NSP
12 service, and in the decision approving the Griffith transportation agreement.
13 Further, the customers of Citizens' Northern Arizona Gas Division will receive a
14 direct benefit from the future credits to the PGA Bank attributable to fifty percent
15 of the additional after-tax margins resulting from increased NSP service
16 revenues.
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18 Since all relevant issues in this application have been previously considered
19 by the Commission, and given the urgent nature of this request to have a
20 procurement agreement in place in order to meet the commercial operation date
21 for the Griffith plant, and an appropriate tariff for providing such service, Citizens
22 respectfully requests that this application be considered and submitted for
23 Commission approval on an expedited basis, without a hearing.
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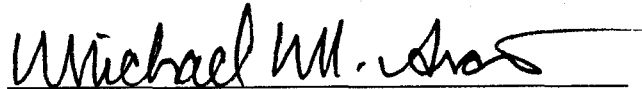
25 **CORRESPONDENCE**

26 All correspondence regarding these comments or this Application should be
27 addressed to:
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29

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RESPECTFULLY SUBMITTED this 2nd day of May, 2001.



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Original and ten copies filed this
May 2nd, 2001, with:

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NEGOTIATED SALES PROGRAM

AVAILABILITY

Available to all customers who receive service under the Company's T-1 tariff, Transportation of Customer-Secured Natural Gas, or special gas supply agreements approved by the Arizona Corporation Commission that meet the minimum transportation requirements under the T-1 tariff.

TERRITORY

All of the Company's Arizona Service Areas excluding Santa Cruz County.

NATURE OF SERVICE

Service under the Negotiated Sales Program ("NSP") will be the sale of natural gas to a transportation customer who has negotiated with the Company for the delivery of natural gas to the interconnection of the Company's distribution system and an upstream pipeline at the City Gate. NSP service will be firm or interruptible at the election of the Customer.

RATES

The rates to be charged for this service shall be those negotiated between the Company and each Customer.

CONDITIONS

1. Subject to all the applicable laws and order, and the Company's Rules and Regulations on file with the Arizona Corporation Commission.
2. NSP service shall be provided subject to the provisions of this tariff, the T-1 tariff and Decision No. 59399, or special gas supply agreements approved by the Arizona Corporation Commission, as applicable.

Effective Date: June 1, 2001

Authority: Arizona Corporation Commission

Filed by: Carl W. Dabelstein, V.P. - Regulatory Affairs